

DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

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To: All Community Service Block Grant, Low-Income Home Energy Assistance Program, Department of Energy, and Other Program Contractors

From: CSD Audit Services Unit

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2009 SUPPLEMENTAL AUDIT GUIDE**Introduction**

The purpose of this 2009 Supplemental Audit Guide is to provide further instructions for the independent auditor and/or CPA firms that perform audits of agencies that contract with the California Department of Community Services and Development (CSD) to deliver programs. As specified in each program contract, all independent auditors and CPA firms must follow this Supplemental Audit Guide if the Contractor being audited is funded totally or in part by CSD contracts. This guide is not intended to be an auditing procedures manual but rather to further instruct the independent auditor and CPA firm in testing certain costs identified by CSD as needing more detailed disclosure.

The primary focus of this guide is auditing and reporting on specific items of costs funded by CSD contracts. The procedures outlined in this guide either clarify and complement or, exceed the requirements of Office of Management and Budget (OMB) Circular A-133.

Auditor's Judgment

Auditors performing the work according to this Supplemental Audit Guide must continue to exercise professional judgment. The auditor shall follow the procedures included in this audit guide unless, in the exercise of his or her professional judgment, the auditor determines that other procedures are more appropriate in particular circumstances. The auditor, however, must justify in writing any change from the audit procedures suggested by this Supplemental Audit Guide. The audit report must contain assurances that a review for compliance with OMB Circulars A-87 and A-122 was conducted.

Selected Items of Cost**Inventory System (All Contracts)**

1. The independent auditor or CPA firm must gather evidence to validate the inventory listed as an asset on the balance sheet.

2. The closeout report on CSD contracts requires an inventory listing on all items purchased with CSD contract funds.
3. Inventories listed on the balance sheet and on the CSD closeout reports must be verified that they physically exist, are owned (not leased), and are in operable condition.
4. Inventory listings must be accurately compiled in the inventory accounts. Inventories are to be properly stated at cost (except when the market rate is lower).

Subcontracts (All Contracts)

1. Subcontracts must be arms-length agreements and free of actual or apparent conflicts of interest. Validate and report to CSD. CSD-funded agencies should be aware that contracting with wholly owned subsidiaries might not be considered arms-length agreements. This is especially true where both boards have similar members.
2. Contractors are required to substantiate that all costs expended under subcontracts are allowable and allocable to the particular program pursuant to the same standards as the costs expended directly by the Contractor under the specific CSD contract. Document the Contractor's system of ensuring this level of accountability, and report to CSD.

Weatherization Crew Hours (LIHEAP and DOE Contracts)

Document the methodology the Contractor uses to capture the actual hours each weatherization worker spends on each house, specific work performed and address. If this data is maintained in an automated system, obtain and review system documentation.

1. Verify that the monthly report summaries used to report weatherization crew hours provide accurate information by selecting and testing a representative sample.
2. Trace the monthly closeout report totals for weatherization labor hours to the Contractor's monthly report summaries and reconcile this to the supporting source documents.

Prohibition on Lobbying

The independent auditor shall verify that no CSD contract funds were used to influence or attempt to influence an officer or employee of a state or federal government agency, or a member of Congress or the State Legislature, in connection with the awarding of any contract, grant, loan, or cooperative agreement.

System of Internal Control

Audits must include an examination of the systems of internal control. Internal control systems must be established to ensure compliance with laws and regulations affecting the expenditure of State and/or Federal funds, financial transactions and accounts, and the agency's process for submission of Contractor billings submitted to CSD for the performance of the contract.

The Contractor's accounting system must provide for accumulating and recording of expenditures by cost category (budget line items) shown in the approved budget. The independent auditor or CPA firm must give an opinion on the internal controls of the Contractor being reviewed.

Administrative Cost Cap

CSD contracts have an administrative cost cap. Administrative costs charged to each CSD contract must not exceed this cost. In addition, other Federal funds must not be used to exceed the total administrative cost cap charged to the CSD contract, unless specifically allowed by Federal statute.

Use of Indirect Cost Rates or Other Indirect Cost Methodology

1. A Federally Approved Indirect Cost Allocation Rate may be used for selected items of costs up to the maximum allowed by the CSD contract's administrative cost rate. Costs claimed for a specific line item in the budget cannot be reported as direct costs and also as indirect costs.
2. Validate the indirect cost rate or methodology and the application of the rate used by the Contractor.
3. Ensure compliance with OMB Circulars A-87 and A-122.

Basis for Allocation of Costs

1. The independent auditor or CPA firm must identify the Contractor's basis for allocating costs to CSD contracts. Costs charged to CSD contracts must be allocable, allowable, and based on actual expenses incurred by the Contractor for the CSD contract. Costs charged to the CSD contract must also have an approved contract budget line item.
2. Ensure Compliance with OMB Circulars A-87 and A-122.

Going Concern and Subsequent Events

The independent auditor or CPA firm must provide a “positive assurance” statement that any (significant) subsequent events, related directly or indirectly, that occurred after the final closeout report and single agency-wide audit are submitted to CSD do not materially affect the closeout report, as submitted by the Contractor. Additionally, the independent auditor or CPA firm must provide “positive assurance” whether or not the Contractor will continue as a going concern. Some examples are litigation settlement, bankruptcy, mergers, large loans, cash flow problems, etc.

Representation Letter

A Representation Letter between the independent auditor or CPA firm and the Contractor must be forwarded to CSD. The Representation Letter must be signed by the Contractor’s controller (or equivalent) and either the Chair of the Audit Committee if it exists or the Executive Director.

Engagement Letter

In the event a Contractor is more than one month late in submitting the required independent audit report, the Contractor shall submit one copy of the finalized, signed Engagement letter between the Contractor and the Contractor’s independent auditor or CPA firm.

Supplemental Statements

Beginning with the 1994 program year, CSD contract provisions have required the financial and compliance audit to include supplemental statements. These supplemental statements must be included as part of the package submitted to CSD with the single agency-wide audit for each fiscal year. CSD uses the above information to reconcile the audited costs to the costs reported by the Contractor.

The supplemental statements should be based on the budget line items contained in the contract. The supplemental statement must include the contract budget line items, expenditures for each budget line item by fiscal year, total audited costs and total reported expenses by budget line item. Please refer to Attachment Nos. 1 and 2 for examples of the format to use for the required supplemental statements.

Auditing Standards and Reports

The financial and compliance audit report shall contain the following supplemental financial information: a combined statement of revenue and expenditures for each contract that presents, by budget line item, revenue and expenditures for the audit period and a description of the methodology used to allocate and claim indirect costs and any administrative cost pools.

Testing of Transactions

A sufficient number of items should be selected for review that represent all material costs categories. The audit should determine whether:

- a. Contractor's internal control over the contract is effective and working as intended;
- b. Reported program expenditures are allowable and allocable;
- c. Reported expenditures conform to funding or program limitations or exclusions;
- d. Reported expenditures are not charged to, or reimbursed by, other programs or funding sources;
- e. Transactions are properly approved, reported, and supported by source documents;
- f. Reported expenditures were incurred within the appropriate contract term; and
- g. Contractor complied with applicable laws, regulations, and contract requirements.

- LIHEAP Contracts -

ACME COMMUNITY DEVELOPMENT, INC.
 SUPPLEMENTAL STATEMENT OF REVENUE AND EXPENDITURES
 CSD CONTRACT NO. 94BD-50XX (WX)
 FOR THE PERIOD JAN. 1, 1994 THROUGH DEC. 31, 1994

	JAN 1, 1994 through JUNE 30, 1994	JUL 1, 1994 through DEC 31, 1994	Total Audited Costs	Total Reported Expenses	Total Budget
REVENUE					
Grant Revenue	\$144,660	\$127,192	\$271,852		\$271,852
Interest Income	\$197	\$260	\$457		
Other Income			\$0		
Deferred Interest Earned	\$7,088		\$7,088		
Deferred Revenue Earned	\$34,004	\$39,219	\$73,223		
Deferred Grant Revenue	(\$39,416)	(\$76,422)	(\$115,838)		
Deferred Interest		(\$260)	(\$260)		
Total Revenue:	\$146,533	\$89,989	\$236,522		\$271,852
EXPENDITURES (1)					
Administration (8%)					
Salaries & Wages	\$4,458	\$2,378	\$6,836	\$7,196	\$10,300
Fringe Benefits	\$1,734	\$865	\$2,599	\$2,799	\$3,048
Facilities	\$1,680	\$1,229	\$2,909	\$2,909	\$3,000
Utilities					\$300
Equipment	\$796		\$796	\$2,150	
Telephone - Communications	\$107	\$67	\$174	\$269	\$700
Travel	\$1,401	(\$414)	\$987	\$987	\$1,500
Accounting					
Audit Costs	\$370	\$260	\$630	\$1,000	\$1,500
Insurance - Bonding			\$0		
Office Supplies	\$109	\$185	\$294	\$295	\$800
Miscellaneous	\$75	\$134	\$209	\$444	\$600
Total Administration Costs:	\$10,730	\$4,704	\$15,434	\$18,048	\$21,748
Program (92%)					
Outreach	\$6,850	\$6,850	\$13,700	\$12,041	\$13,800
Intake	\$8,835	\$8,545	\$17,380	\$23,262	\$28,800
Client Education & Counseling	\$7,462	\$2,569	\$10,031	\$11,041	\$12,100
Client Assistance	\$6,324	\$4,901	\$11,225	\$11,041	
Assessment					\$12,100
Salaries/ Wages/Labor	\$40,410	\$36,668	\$77,078	\$85,073	\$101,100
Fringe Benefits	\$16,802	\$16,550	\$33,352		
Weatherization Materials	\$17,250	\$6,304	\$23,554	\$23,554	\$13,084
Maintenance/Repair			\$0	\$297	\$500
Equipment Lease/Purchase/Rent	\$9,796	\$1,355	\$11,151	\$10,704	\$15,800
Travel			\$0	\$626	\$1,300
Storage	\$15,541		\$15,541	\$15,541	\$20,220
Space			\$0		
Insurance - Vehicular	\$5,424		\$5,424	\$9,126	\$21,300
Supplies	\$109	\$185	\$294		\$7,500
Utilities			\$0		\$1,500
Other	\$1,000	\$1,358	\$2,358	\$9,078	\$1,000
Total Program Costs:	\$135,803	\$85,285	\$221,088	\$211,383	\$250,104
Total Costs:	\$146,533	\$89,989	\$236,522	\$229,431	\$271,852

(1) Please note that the supplemental statements should be based on the budget line items contained in the contract and will need to be adjusted to incorporate the line items applicable to specific contracts.

ACME COMMUNITY DEVELOPMENT, INC.
SUPPLEMENTAL STATEMENT OF REVENUE AND EXPENDITURES
CSD CONTRACT NO. 94BD-50XX (ECIP)
FOR THE PERIOD JAN. 1, 1994 THROUGH DEC. 31, 1994

	JAN 1, 1994 through JUNE 30, 1994	JUL 1, 1994 through DEC 31, 1994	Total Audited Costs	Total Reported Expenses	Total Budget
REVENUE					
Grant Revenue	\$207,835	\$269,800	\$477,635		\$477,635
Interest Income	\$414		\$414		
Other Income		\$260	\$260		
Deferred Interest Earned	\$3,089		\$3,089		
Deferred Revenue Earned					
Deferred Grant Revenue		(\$3,089)	(\$3,089)		
Deferred Interest		(\$674)	(\$674)		
Total Revenue:	\$211,338	\$266,297	\$477,635		\$477,635
EXPENDITURES (1)					
Administration (7%)					
Salaries & Wages	\$6,251	\$6,477	\$12,728	\$12,728	\$18,800
Fringe Benefits	\$1,889	\$2,181	\$4,070	\$4,070	\$5,634
Facilities	\$3,695	\$4,692	\$8,387	\$8,387	\$2,000
Utilities					\$600
Equipment					
Telephone - Communications	\$809	\$913	\$1,722	\$1,722	\$600
Travel	\$112	\$787	\$899	\$899	\$1,500
Accounting					
Audit Costs	\$684	\$772	\$1,456	\$1,456	\$2,500
Insurance - Bonding					
Office Supplies	\$481	\$544	\$1,025	\$1,025	\$800
Miscellaneous	\$521	\$588	\$1,109	\$1,109	\$1,000
Total Administration Costs:	\$14,442	\$16,954	\$31,396	\$31,396	\$33,434
Program (93%)					
Outreach				\$8,159	\$9,000
Intake				\$54,868	\$54,075
Client Education & Counseling				\$19,780	\$17,000
Client Assistance	\$155,107	\$205,401	\$360,508	\$360,508	\$358,226
Assessment					
Salaries/ Wages/Labor	\$27,911	\$28,915	\$56,826		
Fringe Benefits	\$10,745	\$12,407	\$23,152		
Contract Services	\$1,069	\$387	\$1,456		
Equipment Lease/Purchase/Rent	\$163	\$11	\$174		
Travel					
Space	\$529	\$671	\$1,200		
Miscellaneous				\$2,924	
<i>Insurance - bonding **</i>					\$1,900
<i>Supplies **</i>					\$2,000
<i>Telephone Equip/System **</i>					\$2,000
Program Operating Expenses					
Other	\$1,373	\$1,550	\$2,923		
Total Program Costs:	\$196,897	\$249,342	\$446,239	\$446,239	\$444,201
Total Costs:	\$211,339	\$266,296	\$477,635	\$477,635	\$477,635

** Miscellaneous specified

(1) Please note that the supplemental statements should be based on the budget line items contained in the contract and will need to be adjusted to incorporate the line items applicable to specific contracts.